

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
L-03 H-02 PA-02 PRS-01 SEC-01 /111 W
-----281808Z 012165 /43

R 281703Z DEC 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4329
INFO DEPARTMENT TREASURY
AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING
DECEMBER 27)

1. MONEY MARKET:
TIGHT MONEY MARKET CONDITIONS CONTINUE TO BE THE CASE
IN THE FRG. CALL MONEY IS CURRENTLY QUOTED AT 1/2 TO 1
PERCENT ABOVE THE LOMBARD RATE. OBSERVERS PREDICT
TIGHT CONDITIONS TO CONTINUE INTO JANUARY SINCE
BANKS HAVE DIPPED HEAVILY INTO THE LOMBARD AND
REDISCOUNT BORROWING FACILITIES OF THE BUNDESBANK
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AND WILL WANT TO USE ANY INCREASE IN LIQUIDITY TO
REDUCE THESE BORROWINGS. DURING THE PAST WEEK,
FRANKFURT INTERBANK MONEY RATES WERE QUOTED AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

DEC. 20	4.8 - 5.0	5.00	4.90
21	5.0 - 5.3	5.00	4.90
22	4.8 - 5.0	5.00	4.90
23	5.0 - 5.3	5.00	4.90
24 - 26	GERMAN HOLIDAYS		
27	5.0 - 5.5	5.00	4.90

2. FOREIGN EXCHANGE MARKETS:

/OLOWING A MODEST RECOVERY IN THE DAYS LEADING UP TO THE CHRISTMAS RECESS, THE DOLLAR WEAKENED AGAIN ON THE 27TH AND 28TH OF DECEMBER. FRANKFURT SPOT AND FORWARD DOLLAR DATES DEVELOPED AS FOLLOWS DURING THE REPORTING PERIOD:

FORWARD DOLLARS

SPOT DOLLARS (IN PCT. PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

DEC 21	2.3670	2.3607	2.3700	#0.35	-0.12
22	2.3660	2.3686	2.3700	#0.10	-0.37
23	2.3670	2.3705	2.3690	#0.35	-0.12
24 - 26	GERMAN HOLIDAYS				
27	2.3660	2.3665	2.3620	#0.35	-0.12
28	2.3580	2.3565	N.A.	N.A.	N.A.

3. CENTRAL BANK MONEY:

IN NOVEMBER, THE VOLUME OF CENTRAL BANK MONEY (SEASONALLY ADJUSTED) AMOUNTED TO DM 120.1 BILLION UNCLASSIFIED

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AS COMPARED WITH DM 118.4 BILLION IN OCTOBER. IF IN DECEMBER, CENTRAL BANK MONEY WOULD CONTINUE TO INCREASE AT THE NOVEMBER GROWTH RATE, THE 1976 GROWTH OF CENTRAL BANK MONEY (AVERAGE 1976 OVER AVERAGE 1975) WOULD BE 9.3 PERCENT.

4. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS PRICES WERE BASICALLY UNCHANGED. ACCORDING TO THE PRESS, AVERAGE CURRENT YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING MATURITY

(YEARS) 1 3 5

YIELD TO MATURITY:

DEC 23	5.20	6.65	7.10
20	5.20	6.70	7.05

REMAINING MATURITY

(YEARS) 7 9 10

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L-03 H-02 PA-02 PRS-01 SEC-01 /111 W

-----281808Z 012189 /43

R 281703Z DEC 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4330

INFO DEPARTMENT TREASURY

AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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YIELD TO MATURITY:

DEC. 23 7.25 7.45 7.55

20 7.30 7.45 7.50

ON DECEMBER 29 THE FEDERAL GOVERNMENT WILL OFFER

A DM 1.5 BILLION LOAN. THE ISSUE WILL BE MADE

IN TWO TRANCHES, A 7 PERCENT TRANCHE CARRYING A

MATURITY OF 6 YEARS (ISSUE PRICE 100), AND A 7 1/4

PERCENT TRANCHE CARRYING A 10 YEAR MATURITY (ISSUE

PRICE 99 1/2, YIELD TO MATURITY 7.32 PERCENT).

THE BUNDESBANK WILL HOLD DM 250 MILLION OF EACH

TRANCHE FOR PRICE SUPPORTING OPERATIONS. ON THE
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MARKET FOR FOREIGN DM BONDS TWO LOANS ARE CURRENTLY
BEING OFFERED: A DM 250 MILLION LOAN OF THE IBRD
(COUPON 7 PERCENT, ISSUE PRICE 99, MATURITY 10 YEARS)
AND A DM 200 MILLION LOAN OF THE KINGDOM OF NORWAY
(COUPON 6 1/2 PERCENT, ISSUE PRICE 100 1/2 ,
MATURITY 5 YEARS).

5. FEDERAL GOVERNMENT TEMPORARILY DISCONTINUES SALES OF
FEDERAL SAVINGS BONDS:

ON DECEMBER 15 THE FEDERAL GOVERNMENT TEMPORARILY DIS-
CONTINUED SELLING FEDERAL SAVINGS BONDS, APPARENTLY
BECAUSE SUCH BONDS CARRIED OVERLY ATTRACTIVE YIELDS
AS COMPARED TO CONDITIONS CURRENTLY PREVAILING ON THE
BOND MARKET. (YIELDS WERE 7.27 PERCENT -- 6 YEAR MA-
TURITY, ANNUAL INTEREST PAYMENTS; AND 7.63 PERCENT --
MATURITY 7 YEARS, ACCUMULATED INTEREST.) THESE BONDS
ARE PARTICULARLY ADVANTAGEOUS SINCE AFTER THE FIRST
YEAR THEY CAN BE RETURNED AT THEIR NOMINAL PRICE,
THEREBY ELIMINATING FURTHER PRICE RISK. ON JANUARY 1,
THE FEDERAL GOVERNMENT WILL RESUME SALES OF SAVINGS
BONDS AT YIELDS OF 6.71 PERCENT FOR 6-YEAR BONDS AND
7.06 PERCENT FOR 7-YEAR BONDS.

6. GERMAN CAPITAL MARKETS IN 1976:

(A) STOCK MARKET: GERMAN STOCK PRICES DECLINED BY ABOUT
8 PERCENT IN 1976 DESPITE THE FACT THAT GERMAN FINANCIAL
MARKETS WERE VERY LIQUID, PROFITS OF FIRMS INCREASED,
AND THE INFLATION RATE DECLINED. THE STOCK MARKET BEGAN
THE YEAR WITH CONSIDERABLE PRICE INCREASES BUT FROM MID-
MARCH TO EARLY SUMMER PRICES DECLINED. THE DECLINE
APPEARS TO HAVE BEEN INITIATED BY A SLIGHT INCREASE
IN THE GERMAN LONG-TERM INTEREST RATE, AND WAS IN-
TENSIFIED BY THE BUNDESBANK'S DECISION TO INCREASE
MINIMUM RESERVES IN MAY AND JUNE. THIS MEASURE WAS
INTENDED TO ABSORB ABOUT HALF OF THE DM 8 BILLION OF
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SPECULATIVE INFLOWS OF FOREIGN CAPITAL BUT WAS APPARENT-
LY INTERPRETED BY THE MARKET AS INDICATING A BASIC
CHANGE IN THE BUNDESBANK'S MONETARY POLICY. IN
ADDITION, SUBSTANTIAL BORROWINGS BY THE FEDERAL GOVERN-
MENT ON THE BOND MARKET IRRITATED THE MARKET.

DURING THE SUMMER, THE STOCK MARKET REMAINED RATHER CALM. THE REFORM OF THE CORPORATION TAX (WHICH IS BELIEVED TO MAKE STOCK INVESTMENTS MORE ATTRACTIVE) SUPPLIED LITTLE IF ANY STIMULUS. RENEWED UNREST ON FOREIGN EXCHANGE MARKETS IN SEPTEMBER/OCTOBER AND UNCERTAINTY WITH REGARD TO THE WORLD-WIDE ECONOMIC UPSWING CAUSED CONCERN ABOUT GERMAN EXPORT PROSPECTS. CONSEQUENTLY, STOCK PRICES FELL FURTHER AND AT THE YEAR-END, WERE ABOUT 13 PERCENT BELOW THEIR 1976 HIGH REACHED IN MARCH.

(B) BOND MARKET: THE GERMAN BOND MARKET WAS ALSO AFFECTED BY THE ABOVE DESCRIBED WEAKENING FACTORS PREVAILING IN SPRING. THE YIELD ON GERMAN BONDS OUTSTANDING DECLINED FROM ABOUT 8.2 PERCENT AT THE END OF 1975 TO 7.7 PERCENT IN APRIL 1976 BUT THEN INCREASED AGAIN TO 8.2 PERCENT IN AUGUST. IN CONTRAST TO STOCK DEVELOPMENTS, HOWEVER, THE BOND MARKET OVERCAME THIS PERIOD OF WEAKNESS. AMONG THE STABILIZING FACTORS CITED WERE THAT BY AUGUST PUBLIC AUTHORITIES HAD ALREADY COVERED ABOUT TWO THIRDS OF THEIR LARGE 1976 BORROWING REQUIREMENTS AND THAT FROM APRIL ONWARD THE INFLATION RATE DECLINED. THIS DECLINE APPEARS TO HAVE STIMULATED INVESTMENT IN BONDS SINCE IT RAISED THE "REAL" INTEREST RATE FROM ABOUT 2 1/2 PERCENT IN SPRING OF THIS YEAR TO 4 PERCENT IN SEPTEMBER/OCTOBER. AS A RESULT THE BOND YIELD FELL TO AROUND 7.3 PERCENT AT THE YEAR-END.

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R 281703Z DEC 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4331
INFO DEPARTMENT TREASURY
AMEMBASSY BERN
AMEMBASSY BRUSSELS

AMEMBASSY LONDON
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DESPITE THE CHANGING BOND MARKET CONDITIONS PREVAILING,
IN 1976 TOTAL SALES OF DOMESTIC BONDS MAY AGAIN
REACH THE RECORD 1975 LEVEL. IN THE FIRST 11 MONTHS
GROSS SALES OF DOMESTIC BONDS TOTALLED DM 67.1 BILLION
AS COMPARED WITH DM 68.7 BILLION IN THE FIRST 11 MONTHS
OF 1975, AND NET SALES DM 46.1 BILLION IN 1976 AGAINST
DM 45.3 BILLION IN 1975. CONSIDERING THAT THE BUNDES-
BANK PURCHASED DM 7.5 BILLION OF OUTSTANDING DOMESTIC
BOND IN 1975 AND SOLD ALMOST DM 7 BILLION OF THESE
BONDS IN 1976, THE CAPACITY OF THE GERMAN BOND MARKET
HAS DEMONSTRATED CONSIDERABLE DEPTH THIS YEAR. AT THE
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END OF THIS YEAR, THE VOLUME OF OUTSTANDING DOMESTIC
BONDS IS ESTIMATED TO REACH ABOUT DM 370 BILLION,
WHICH IS ALMOST 4 TIMES THE AMOUNT OUTSTANDING 10 YEARS
AGO.

7. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

SEASONALLY ADJUSTED BUNDESBANK
DATA

JULY AUGUST SEPT. OCT.
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BUILDING PERMITS FOR HOUSING

UNITS (1970 EQUALS 100) 77 68 69 68

RETAIL SALES VOLUME

(1970 EQUALS 100) 113 115 115 114

VOLUME OF TRADE (BILL.DM)

EXPORTS 15.86 15.88 17.02 16.10

IMPORTS 13.81 14.34 13.78 14.15

INDUSTRIAL WAGES PER

EMPLOYEE (1970 EQUALS

100) 179 179 180 -

AUG. SEPT. OCT. NOV.

LIVING COSTS (1970

EQUALS 100) 141.9 142.0 142.1 142.3

INDUSTRIAL PRODUCER PRICES

(1970 EQUALS 100) 142.3 142.9 143.1 -

AGRICULTURAL PRODUCER PRICES

(1970 EQUALS 100) 154.3 150.2 147.0 -

NON-SEASONALLY ADJUSTED

FIGURES (PCT. CHANGE FROM COMPARABLE

1975 LEVELS)

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SEPTEMBER OCTOBER NOVEMBER

LIVING COSTS 4.0 3.8 3.7

INDUSTRIAL PRODUCER PRICES 4.6 4.6 4.5

EXPORT PRICES 4.4 3.7 3.4

IMPORT PRICES 6.2 3.9 3.9

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